

UNITED STATES DISTRICT COURT

EASTERN DISTRICT OF VIRGINIA

(Alexandria Division)

CITY OF WARREN POLICE AND FIRE	)	Civil Action No.
RETIREMENT SYSTEM, Individually and on	)	
Behalf of All Others Similarly Situated,	)	<u>CLASS ACTION</u>
	)	
Plaintiff,	)	COMPLAINT FOR VIOLATIONS OF THE
	)	FEDERAL SECURITIES LAWS
vs.	)	
	)	
DXC TECHNOLOGY COMPANY, J.	)	
MICHAEL LAWRIE and PAUL N. SALEH,	)	
	)	
Defendants.	)	
	)	<u>DEMAND FOR JURY TRIAL</u>
_____	)	

## **INTRODUCTION**

Plaintiff City of Warren Police and Fire Retirement System (“plaintiff”), individually and on behalf of all others similarly situated, by plaintiff’s undersigned attorneys, for plaintiff’s complaint against defendants, alleges the following based upon personal knowledge as to plaintiff and plaintiff’s own acts, and upon information and belief as to all other matters based on the investigation conducted by and through plaintiff’s attorneys, which included, among other things, a review of U.S. Securities and Exchange Commission (“SEC”) filings by DXC Technology Company (“DXC” or the “Company”), Company press releases and conference call transcripts, as well as media reports about the Company. Plaintiff believes that substantial additional evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

## **SUMMARY AND OVERVIEW**

1. This is a securities fraud class action on behalf of all persons who purchased DXC common stock between February 8, 2018 and November 6, 2018, inclusive (the “Class Period”). This action is brought against DXC, its Chief Executive Officer (“CEO”) J. Michael Lawrie (“Lawrie”) and its Chief Financial Officer (“CFO”) Paul N. Saleh (“Saleh”) for violations of the Securities Exchange Act of 1934 (“1934 Act”) and SEC Rule 10b-5, promulgated thereunder.

2. DXC purports to be a leader in the information technology (“IT”) services space, focusing on helping clients decrease IT infrastructure costs and advance to digital technology. DXC was formed by the merger of Computer Sciences Corporation (“CSC”) and the enterprise services business of Hewlett Packard Enterprises (“HPE”) on April 3, 2017. The merger created one of the largest IT services companies in the industry. According to the Company’s most recent Annual

Report on Form 10-K, the Company delivers services in three service lines or sectors: Global Business Services, Global Infrastructure Services, and USPS:<sup>1</sup>

#### Global Business Services

GBS provides innovative technology solutions that help its clients address key business challenges and accelerate digital transformations tailored to each client's industry and specific objectives. GBS offerings include:

- Enterprise, Cloud Applications and Consulting – providing business process systems integration and technical delivery.
- Application Services – helping clients modernize, develop, test and manage their applications.
- Analytics – providing analytics services to help clients gain rapid insights and accelerate their digital transformation.
- Business Process Services – providing digital integration of front and back office processes.
- Industry Software and Solutions – providing solutions to enable businesses to quickly integrate technology. GBS's vertical-specific IP includes insurance, healthcare and life sciences, travel and transportation, and banking and capital markets solutions.

#### Global Infrastructure Services

GIS provides a portfolio of offerings that deliver predictable outcomes and measurable results while reducing business risk and operational costs for clients. GIS offerings include:

- Cloud and Platform Services – helping clients maximize their private cloud, public cloud and legacy infrastructures, as well as securely manage their hybrid environments.
- Workplace and Mobility – providing a consumer-like experience with enterprise security and instant connectivity for its clients.
- Security – helping clients predict attacks, proactively respond to threats, ensure compliance and protect data and infrastructure.

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<sup>1</sup> The Company's USPS business, which is focused on sales and services to government and public sector clients, was spun off from the Company in the first quarter of fiscal 2019 (ended June 30, 2018).

- The USPS segment delivers IT services and business solutions to all levels of government in the United States.

3. Plaintiff alleges that, during the Class Period, defendants misrepresented the Company's financial condition by issuing false and misleading statements regarding the Company's current financial performance and outlook for fiscal year 2019 ("FY19") in press releases, analyst conference calls and quarterly and fiscal year-end reports filed with the SEC.<sup>2</sup>

4. Specifically, during the Class Period, the Company repeatedly assured investors that it had streamlined its work force, cutting costs significantly by doing so, thereby optimizing its head count and calibrating the mix of skills of its employees to both service existing clients and capture new business. In addition, the Company repeatedly touted the revenue growth of and prospects for its digital services platform. Accordingly, because of the combination of strong demand for its services, cost-cutting measures and workforce optimization, the Company would report FY19 revenues of up to \$22 billion and earnings per share ("EPS") in the range of \$7.75 to \$8.15, and, even as late as October 24, 2018, with the disclosure of key personnel departures and rumors of missed revenue projections, the Company's financial performance was indeed trending toward the high end of that EPS range. For example, the Company made the following representations regarding its financial performance during the Class Period:

- "We also enhanced our workforce management process *to more cost-effectively deliver existing business while staffing the required labor for new business.*"
- "For fiscal 2019, *we expect revenue to be \$21.5 billion to \$22 billion, which excludes the USPS business.*"
- "*We continue to accelerate the growth in our digital and industry IP offerings, and our BPS business is also demonstrating strong momentum.*"
- "We're targeting non-GAAP EPS of \$7.75 to \$8.15 and adjusted free cash flow to be *90% or more of adjusted net income.*"

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<sup>2</sup> The Company's fiscal year ends on March 31.

- *“We continue to build momentum in digital, with double-digit growth in each of our digital areas . . . .”*
- *“The big issue is on the digital growth. . . . [V]ery strong book-to-bills of 1.6, and we’re seeing literally an explosion in the number of deals that we’re doing under \$5 million, which is exactly the strategy.”*
- *“[T]he Company is reaffirming guidance for earnings per share of \$7.75 to \$8.15 for Fiscal 2019, and that it is trending toward the higher end of that range.”*

5. As a result of defendants’ material misrepresentations and omissions, DXC’s stock traded at artificially inflated prices, reaching a Class Period high of more than \$96.38 per share on September 21, 2018.

6. Each of the above representations was materially false and misleading when made because defendants knew or recklessly disregarded and failed to disclose the following facts:

(a) the Company had changed or planned to change the operations of its sales teams, deploying generalized sales teams as opposed to the specialized teams that were better capable of delivering specialized services to its clients;

(b) the Company’s workforce optimization strategy of sharply reducing staff while reducing costs was resulting in a shortage of sales personnel who could execute on demand for services, thereby risking and ultimately losing sales and revenue opportunities;

(c) in light of the above, the Company’s revenue and financial performance guidance for FY19 and its reaffirmation of the guidance during the Class Period was without a reasonable basis.

7. Nevertheless, during the Class Period, defendants Lawrie and Saleh sold 215,549 shares of DXC stock for proceeds of more than \$19.8 million.

8. On October 24, 2018, *The Register* published an “exclusive” article titled “DXC axes Americas boss amid latest deck chair musical.” The article discussed the early October 2018 surprise firing of Karan Puri, who headed the Company’s Americas sales force, due to a sharp decline in the region’s revenue and, specifically, a reported 10%-15% revenue shortfall. The article

also suggested that an internal Company source had indicated that DXC had been struggling to efficiently serve the demand from its customers, a fact later confirmed by defendant Lawrie.

According to the article:

**DXC axes Americas boss amid latest deck chair musical**

\* \* \*

The boss of DXC Americas has been elbowed out of the door, an internal memo seen by The Register can confirm. *The reason for his exit is believed to be a double-digit drop in the region's sales.*

*A 9 October memo* sent to some staff from the Frankenfirm's CEO Mike Lawrie dedicated only the first short paragraph to the departure of Karan Puri.

"Today I am announcing that Karan Puri will be leaving DXC Technology at the end of this week. I know you will join me in wishing Karan well in his future endeavours," the memo stated.

\* \* \*

*One insider told us "DXC is descending into turmoil," and that earlier this month Lawrie called a "town hall" meeting to confirm more redundancies on the shop floor and "blamed Puri for a 10 to 15 per cent shortfall in [forecast] revenues".*

\* \* \*

*The Register* has often spoken to company sources that were concerned about the impact on serving customers.

*One of our sources on this occasion told us "the company is in chaos as all the cuts are leading to mounting customer complaints."*

*DXC has lost numerous customer contracts in the past year including with the Department for Work and Pensions, Aviva and Centrica.*

9. On this disclosure of a 10%-15% revenue shortfall, the firing of Puri, lost customers, and overall chaos, the Company's stock price plummeted 16%, from a close of \$87.56 per share on October 23, 2018, to as low as \$69.51 per share on October 24, 2018, on high trading volume.

10. On the same day, October 24, 2018, the Company sought to reassure investors regarding the Company's financial performance, filing a Form 8-K with the SEC in response to the news of Puri's firing, which reiterated the Company's FY19 EPS guidance:

In response to today's movement in the stock of DXC Technology Company ("DXC" or the "Company"), DXC issued the following statement:

DXC does not comment on rumor or speculation, nor can the Company comment during a blackout period.

\* \* \*

***The Company reiterated guidance stated previously of earnings per share of \$7.75 to \$8.15 for Fiscal 2019, and that it is trending toward the higher end of that range.***

11. Later on the same day, the Company filed ***another*** Form 8-K with the SEC, again reaffirming its FY19 financial guidance:

DXC Technology Company ("DXC" or the "Company") is clarifying the statement issued earlier today in its Form 8-K.

Today, ***the Company is reaffirming guidance for earnings per share of \$7.75 to \$8.15 for Fiscal 2019, and that it is trending toward the higher end of that range.***

12. Then on November 6, 2018, the Company reported its second quarter 2019 financial results in a press release. The release provided specific revenue, pre-tax earnings and gross margin results for the quarter. On the same day, during a conference call for investors, the Company also disclosed that it had indeed lost big sales to significant customers, that quarterly revenues would fall short of expectations by hundreds of millions of dollars, and that the Company would reduce its FY19 revenue outlook by ***\$800 million***. During the conference call, defendants also revealed that customers were scaling back upgrades in some instances, that growth in the digital space was not growing at the previously reported rates, and that the Company had changed its sales approach for two quarters and that the approach had been reversed because it was not working:

***[W]e've revised our revenue target for the year to \$20.7 billion to \$21.2 billion, reflecting \$300 million of currency headwinds, the \$200 million revenue shortfall in the quarter Mike just discussed and an additional \$300 million from revised phasing of contracts in our digital and applications business.***

\* \* \*

*Well what we are seeing is in some instances, as clients begin to contemplate upgrades to some of their systems, they are scaling back on the maintenance of those existing systems. And that did cause some of the shortfall, I think it was about \$80 million, particularly in the U.S.*

\* \* \*

*[R]evenue from our digital bookings is coming in a little slower than what we had expected.*

\* \* \*

*I think there's some execution issues on our part, particularly in our application maintenance and management business. For example, the Americas moved to a little bit more of a general sales model. I concluded that, that wasn't working and made some changes. So we've gone back to a more specialist orientation to sales in our applications business.*

13. On November 7, 2018, JP Morgan issued a report, titled "F2Q Recap – Headline Revenue Miss to Overshadow Margin Progress, Remain OW," discussing the revenue miss and its magnitude:

DXC's F2Q results included revenue disappointment consistent with what many investors had feared going into the results (DXC was down 18% in the last two weeks vs. flat S&P 500). *While weak revenue is not new at DXC, high magnitude of miss could further pressure the stock today. The company acknowledged execution challenges (in Digital and app maintenance businesses).*

\* \* \*

- **Drivers of F2Q revenue weakness.** DXC attributed the high magnitude of revenue miss to: 1) *\$100M impact from slower ramp in Digital projects won as the company could not hire/deploy staff fast enough to meet strong demand*, and 2) *\$80M impact from lower application maintenance revenue due to key clients opting for new applications instead of maintaining existing. DXC also experienced headwinds in applications from recent switch to deploying generalist salesforce which limited its cross/up-selling opportunities*, and will revert and replace w/ specialized sales personnel. . . .
- **Continued revenue headwinds over the near term.** DXC also lowered its FY19 revenue guidance from \$21.5-22.0B to 20.7-21.2B, stemming from: 1) \$300M in incremental FX headwinds relative to the company's initial guidance, 2) \$200M in F2Q revenue miss, and 3) \$300M in weak Digital, and to a lower extent, applications revenue rest of the year.



14. On the November 6, 2018 disclosures, the price of DXC stock declined 13%, from a close of \$72.21 per share on November 6, 2018 to a close of \$63.21 per share on November 7, 2018, on high trading volume.

### **JURISDICTION AND VENUE**

15. Jurisdiction is conferred by 28 U.S.C. §1331 and §27 of the 1934 Act. The claims asserted herein arise under §§10(b) and 20(a) of the 1934 Act, 15 U.S.C. §§78j(b) and 78t(a), and Rule 10b-5 promulgated thereunder, 17 C.F.R. §240.10b-5.

16. Venue is proper in this District pursuant to 28 U.S.C. §1391(b), because DXC's operations are located in this District and many of the acts and practices complained of herein occurred in substantial part in this District.

17. In connection with the acts and conduct alleged in this complaint, defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to, the mails and interstate wire and telephone communications.

### **PARTIES**

18. Plaintiff City of Warren Police and Fire Retirement System purchased the common stock of DXC during the Class Period as set forth in the certification attached hereto and was damaged as the result of defendants' wrongdoing as alleged in this complaint.

19. Defendant DXC Technology Company is incorporated in the state of Nevada and trades on the NYSE under the symbol "DXC." The Company's principal place of business is located in Tysons, Virginia.

20. Defendant J. Michael Lawrie ("Lawrie") is, and was at all relevant times during the Class Period, President, CEO and Chairman of the Board of the Company.

21. Defendant Paul N. Saleh ("Saleh") is, and was at all relevant times during the Class Period, Vice President and CFO of the Company.

22. The defendants named in ¶¶20-21 are referred to herein as the “Individual Defendants.”

### **CONTROL PERSONS**

23. As officers and controlling persons of a publicly held Company, whose common stock is traded on the NYSE and is governed by the provisions of the federal securities laws, the Individual Defendants each had a duty to promptly disseminate accurate and truthful information with respect to the Company’s financial condition, performance, growth, operations, financial statements, business, markets, management, earnings and present and future business prospects and to correct any previously issued statements that had become materially misleading or untrue, so that the market price of the Company’s common stock would be based upon truthful and accurate information. The Individual Defendants’ misrepresentations and omissions during the Class Period violated these specific requirements and obligations.

24. The Individual Defendants participated in the drafting, preparation and/or approval of the various public, shareholder and investor reports and other communications complained of herein and were aware of, or recklessly disregarded, the misstatements contained therein and omissions therefrom, and were aware of their materially false and misleading nature. Because of their Board and/or executive and managerial positions with DXC, each of the Individual Defendants had access to the adverse undisclosed information about DXC’s financial condition and performance as particularized herein and knew (or recklessly disregarded) that these adverse facts rendered the positive representations made by or about DXC and its business or adopted by the Company materially false and misleading.

25. The Individual Defendants, because of their positions of control and authority as officers and/or directors of the Company, were able to and did control the content of the various SEC filings, press releases and other public statements pertaining to the Company issued during the Class

Period. Each Individual Defendant was provided with copies of the documents alleged herein to be misleading prior to or shortly after their issuance and/or had the ability and/or opportunity to prevent their issuance or cause them to be corrected. Accordingly, each of the Individual Defendants is responsible for the accuracy of the public reports and releases detailed herein and is therefore primarily liable for the representations contained therein.

26. The Company and the Individual Defendants are liable as participants in a fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of DXC common stock by disseminating materially false and misleading statements and/or concealing material adverse facts. The scheme: (i) deceived the investing public regarding DXC's business, operations and management and the intrinsic value of DXC common stock; and (ii) caused plaintiff and other members of the Class to purchase DXC common stock at artificially inflated prices.

**FALSE AND MISLEADING STATEMENTS ISSUED  
DURING THE CLASS PERIOD**

27. On February 8, 2018, the Company issued its financial results for the third quarter of fiscal 2018 in a press release reporting growth in EPS and cash flow:

**DXC Technology Delivers Third Quarter Growth in Earnings per Share, Margins, and Cash Flow**

- Q3 Earnings per Share was \$2.68, including the cumulative impact of certain items of \$0.53 per share . . .
- Q3 Non-GAAP Earnings per Share was \$2.15
- Q3 Net Income was \$779 million . . .
- Q3 EBIT of \$488 million, adjusted for certain items is \$927 million and Adjusted EBIT Margin on a comparable basis is 15.0%, compared with 9.5% in the prior year on a pro forma basis
- Q3 Net Cash from Operating Activities was \$999 million
- Q3 Adjusted Free Cash Flow of \$686 million

... DXC Technology Company (NYSE: DXC) today reported results for the third quarter of fiscal year 2018, representing the period from October 1 through December 31, 2017.

“DXC continued to execute on our strategic roadmap during the third quarter, during which the company delivered year-over-year and sequential growth in earnings per share, margins and cash flow,” said Mike Lawrie, chairman, president and CEO of DXC Technology. “Revenue was up sequentially, reflecting strong project sales in the quarter. We are also on track to achieve our year-one cost savings targets.”

### **Financial Highlights - Third Quarter Fiscal 2018**

Diluted earnings per share was \$2.68 in the third quarter, including \$(0.56) per share of restructuring costs . . . .

Non-GAAP diluted earnings per share was \$2.15.

Income before income taxes was \$438 million in the third quarter . . . .

Non-GAAP income before income taxes was \$877 million compared with \$589 million in the year ago period.

Net income was \$779 million for the third quarter . . . .

Adjusted EBIT was \$927 million in the third quarter compared with \$626 million in the prior year.

\* \* \*

Adjusted free cash flow was \$686 million in the third quarter.

### **Global Business Services (GBS)**

GBS revenue was \$2,315 million in the quarter as compared to \$1,046 million for the prior year. . . . GBS profit margin in the quarter was 18.6%, up from 13.9% in the prior year on a pro forma combined company basis, reflecting ongoing cost actions in the business. New business awards for GBS were \$3.3 billion in the third quarter.

### **Global Infrastructure Services (GIS)**

GIS revenue was \$3,145 million in the quarter as compared to \$871 million for the prior year. . . . GIS profit margin in the quarter was 14.7%, up from 9.5% in the prior year on a pro forma combined company basis, reflecting cost actions and process automation. New business awards for GIS were \$2.2 billion in the third quarter.

### United States Public Sector (USPS)

USPS revenue was \$726 million in the quarter. Excluding the impact of purchase price accounting, USPS revenue decreased 11.9% year-over-year on a pro forma combined company basis, reflecting the benefit of a large one-time contract reset during the third quarter last year. USPS profit margin in the quarter was 15.2%, up from 11.6% in the prior year.

28. Also on February 8, 2018, the Company held a conference call for analysts and investors to discuss the Company's third quarter 2018 financial results. In addition to repeating the results reported in the press release, the Company boasted of cost savings driven by "workforce optimization actions" and addressed its approach to deploying its sales force to deliver on and capture demand for digital business growth, specifically indicating it was creating a separate and specific team that would be focused on driving digital platform growth and emphasizing that its digital business required a different mindset, culture and thought process to ignite digital sales:

[Lawrie:] We're on track to deliver \$1.1 billion or more of year 1 cost savings and roughly \$1.6 billion of run rate cost savings exiting fiscal 2018. The additional savings were primarily driven by workforce optimization actions, including the acceleration of management reductions.

\* \* \*

Now the EBIT improvement reflects ongoing cost actions we're taking . . . . *These efforts address both internal labor as well as third-party contractors. We also enhanced our workforce management process to more cost-effectively deliver existing business while staffing the required labor for new business.*

\* \* \*

We're [also] investing in our existing client. So we are appointing what we're calling digital account teams. So we're actually beginning to move in a direction of having one team responsible for the legacy or the run environments that we have, *and then a separate team that is focused, in many cases, on disintermediating and driving digital platform growth.* And we'd concluded that *this digital business requires a different mindset. It's a different culture. It's a different thought process.* And most of our teams are fully employed and busy in just maintaining and running the systems that we have responsibility for. So we're making a big, organic investment around trying to ignite those digital sales, and we're beginning to see some results. I think I said in my commentary, we're going to scale that to 50 accounts. We're seeing good pipeline growth. Now pipeline growth has to get converted into revenue.

29. Following the February 8, 2018 press release and conference call, the price of DXC stock increased from a close of \$79.51 per share on February 8, 2018 to a close of \$83.90 per share on February 9, 2018.

30. On May 24, 2018, the Company issued its financial results for the fourth quarter and fiscal year 2018 in a press release. The press release reported EPS, revenue and earnings that beat Wall Street expectations and included financial guidance for FY19 of \$21.5-\$22 billion:

**DXC Technology Delivers Fourth Quarter Growth in Revenue, Earnings per Share, Margins, and Cash Flow**

- Q4 Earnings per Share was \$1.93, including the cumulative impact of certain items of \$(0.35) per share . . .
  - Q4 Non-GAAP Earnings per Share was \$2.28
- \*       \*       \*
- FY18 Non-GAAP Earnings per Share was \$7.94
  - FY18 Net Cash from Operating Activities was \$3,243 million
  - FY18 Adjusted Free Cash Flow was \$2,427 million

. . . DXC Technology (NYSE: DXC) today reported results for the three and twelve months ended March 31, 2018.

“In fiscal 2018, DXC successfully executed on our strategic roadmap, including the integration of CSC and HPE Enterprise Services, achievement of our first-year financial objectives, and a strengthened leadership position in digital transformation,” said Mike Lawrie, DXC’s chairman, president and CEO. “***Revenue in the quarter grew year-over-year*** and sequentially, and we delivered more than \$1.1 billion dollars of in-year savings. We continue to invest in our digital capabilities and strategic partnerships, ***and we achieved strong growth in digital this year.***

\*       \*       \*

**Global Business Services (GBS)**

GBS revenue was \$2,361 million in the quarter compared to \$1,043 million for the prior year. ***GBS revenues grew 3.3% year-over-year on a pro forma combined company basis, reflecting our clients’ continued shift from traditional application services to Enterprise Applications*** and growth in our Business Process Services businesses. . . .

## **Global Infrastructure Services (GIS)**

GIS revenue was \$3,223 million in the quarter compared to \$846 million for the prior year. GIS revenues grew 3.6% year-over-year on a pro forma combined company basis. . . .

## **United States Public Sector (USPS)**

USPS revenue was \$710 million in the quarter. USPS revenue grew 11.1% year-over-year on a pro forma combined company basis, reflecting growth in two of our largest contracts. USPS profit margin in the quarter was 17.0%, up from 9.9% in the prior year.

31. On the same day, May 24, 2018, the Company held a conference call for analysts and investors to discuss its fourth quarter and fiscal year 2018 financial results. The call was hosted by defendants Lawrie and Saleh. During the call, defendants highlighted revenue growth and, particularly, growth in digital:

[Lawrie:] For fiscal 2018, adjusted EBIT was \$3.499 billion, and adjusted EBIT margin was 14.2%. We generated \$557 million of adjusted free cash flow in the fourth quarter, and for fiscal 2018, adjusted free cash flow was \$2.427 billion.

***Our revenue in the fourth quarter was \$6.294 billion on a GAAP basis, and revenue grew 4.3% year-over-year and was up 1.7% sequentially.*** In constant currency, revenue was down 1.3% year-over-year, was roughly flat sequentially. And for fiscal 2018, revenue was \$24.556 billion. The book to bill in the fourth quarter was 0.9, and for the full year, it was 1x.

***In the fourth quarter, our digital revenue grew 21.6% year-over-year and 8.5% sequentially. For fiscal 2018, digital revenue grew 17%. And in the fourth quarter, our industry IP and BPS revenue was up 7.9% year-over-year and was up 5.7% sequentially.***

\* \* \*

For fiscal 2019, ***we expect revenue to be \$21.5 billion to \$22 billion, which excludes the USPS business.*** There are several positive things contributing to that target as well as a couple of mitigating factors. ***We continue to accelerate the growth in our digital and industry IP offerings, and our BPS business is also demonstrating strong momentum. . . . We're targeting non-GAAP EPS of \$7.75 to \$8.15 and adjusted free cash flow to be 90% or more of adjusted net income.***

\* \* \*

[Saleh:] For the fiscal year 2018, adjusted EBIT was \$3.499 billion and adjusted EBIT margin was 14.2%, up 460 basis points versus the prior year. The improvement in profitability reflects cost actions we've taken to optimize our

workforce, harmonize our policies, extract greater supply chain efficiencies and rationalize our real estate footprint.

In the fourth quarter, we continued to rebalance our workforce. We reduced our labor base by an additional 2.2% in the quarter through continued deployment of our automation program, Bionix, as well as additional bestshoring and pyramid correction. For the full year, ***we reduced our labor base by 12.6% net of new hires and contractor conversions.***

32. On May 24, 2018, Jefferies issued a report, titled “Revenue Growth Surprise in FQ4,” highlighting that the Company had beaten Wall Street analyst expectations on both the top line and bottom line, and that, with the accelerating revenue and cost cutting, it could support higher price multiples in FY19:

DXC Technology (DXC) Revenue Growth Surprise in FQ4

***DXC showed nice revenue acceleration in FQ4 beating the Street by 2.8%*** (helped a bit by FX) driven by improvement in all segments, though especially USPS.

\* \* \*

***Top- and bottom-line Q4 beat.*** DXC reported F4Q18 revenues of \$6,294M, a 4.3% y/y increase (-2% constant currency/PPA adjusted basis) vs. F4Q17, and ahead of the Street at \$6,121M (helped by currency). . . .

***F19 guidance implies revenue acceleration. DXC introduced F19 guidance including: 1) revenue in the range of \$21.5B-\$22.0B*** representing essentially flat growth vs. F18 ex-USPS revenues and vs. Street growth of flat as well . . . .

\* \* \*

Continued cost savings and revenue acceleration help to keep this story going in F19. ***The company sounded a confident tone around revenue acceleration to flat y/y from -3.3% in F18 on a reported basis driven by solid demand for enterprise application transformation projects and other digital capabilities.***

33. Each of defendants’ representations above was materially false and misleading because defendants knew or recklessly disregarded and failed to disclose the following facts:

(a) the Company had already changed or planned to change its sales operations, deploying generalized sales teams as opposed to the specialized teams that were better capable of delivering specialized services to its clients;



(b) the Company's workforce optimization strategy of sharply reducing staff while reducing costs was resulting in a shortage of sales personnel who could execute on demand for services, thereby risking sales and revenue opportunities; and

(c) in light of the above, the Company's revenue and financial performance guidance for FY19 and its reaffirmation of the guidance during the Class Period was without a reasonable basis.

34. Following the Company's May 24, 2018 financial results and conference call, the Company's stock continued to trade at artificially inflated prices.

35. On August 7, 2018, the Company published its first quarter 2019 financial results in a press release. The press release highlighted the Company's reported growth in revenue, margin and cash flow performance and reaffirmed DXC's FY19 financial guidance, including revenue, margins, earnings and free cash flow, stating as follows:

**DXC Technology Delivers Solid First Quarter with Growth in Revenue, Earnings per Share and Margins**

- Q1 earnings per share from continuing operations was \$0.78, including the cumulative impact of certain items of \$(1.15) per share . . .
- Q1 non-GAAP earnings per share was \$1.93
- Q1 income from continuing operations was \$231 million . . .
- Q1 non-GAAP income from continuing operations was \$564 million
- Q1 EBIT of \$413 million, adjusted for certain items is \$803 million and adjusted EBIT margin was 15.2%, compared with 10.9% in the prior year
- Q1 net cash from operating activities was \$473 million
- Q1 adjusted free cash flow was \$321 million

. . . DXC Technology (NYSE: DXC) today reported results for the first quarter of fiscal year 2019, representing the period from April 1 through June 30, 2018.

*"In the first quarter of fiscal 2019, DXC Technology delivered year-over-year growth in revenue, earnings per share, and margins,"* said Mike Lawrie,

DXC's chairman, president and CEO. ***"We continue to build momentum in digital, with double-digit growth in each of our digital areas,*** and we also drove growth in our industry offerings, where we are seeing strong demand in financial services and healthcare."

\* \* \*

#### **Global Business Services (GBS)**

GBS revenue was \$2,213 million in the quarter compared to \$2,267 million for the prior year. GBS revenue decreased 2.4% year-over-year, reflecting the completion of several traditional application contracts. This was partially offset by strong growth in our Enterprise and Cloud Applications business. . . .

#### **Global Infrastructure Services (GIS)**

GIS revenue was \$3,069 million in the quarter compared to \$2,969 million for the prior year. GIS revenues grew 3.4% year-over-year, reflecting a continued moderation of the decline in our IT outsourcing services business as well as strong growth in Cloud and Platform Services, Security, and Workplace and Mobility.

36. Also on August 7, 2018, the Company held a conference call for analysts and investors to discuss the results, which was hosted by defendants Lawrie and Saleh. During the call, defendants repeated the financial results reported in the press release, focusing on digital revenue growth and the Company's FY19 revenue and EPS targets. Lawrie explained the Company's lower-than-expected bookings, but also boasted of an "explosion" of deals under \$5 million, which, according to Lawrie, were evidence of the Company's strategy going forward:

[Lawrie:] ***In the first quarter, digital revenue grew 21% year-over-year, primarily driven by growth in our cloud business.***

\* \* \*

We continue to execute on our synergy plan, we're on track to deliver on our full year savings target, and I'll talk a little bit more about our longer-term synergy plans in a few moments.

***And then finally, for fiscal '19, we continue to target revenue of \$21.5 billion to \$22 billion and on a non-GAAP EPS of \$7.75 to \$8.15. Although we are trending to the upper end of that EPS range.*** And we continue to target adjusted free cash flow of 90% or more of adjusted net income.

\* \* \*

[Analyst:] I noticed bookings were down 25% year-over-year. . . . Can you just give us some color on that? And then Paul, on the EPS beat, you're doing better than expected for the first quarter. Why not just push the guidance up, because now, analysts will adjust their models down for 2 through 4 in order to stay within the range?

[Lawrie:] I'll let Paul talk about the EPS range, but in terms of the book-to-bill, you're – there's 2 things going on here. One, we are beginning to deemphasize a little bit TCV. . . . There were some large deals that we thought we're going to close in the first quarter and were closed in the second quarter. That sort of normal thing. ***The big issue is on the digital growth. And there, we are seeing very strong book-to-bills of 1.6, and we're seeing literally an explosion in the number of deals that we're doing under \$5 million, which is exactly the strategy.*** It is more clients, more smaller deals that can scale over time.

37. On August 8, 2018, Cowen issued a report, titled "1Q Ahead on Strong Margin," discussing the Company's first quarter FY19 results:

### **1Q Ahead on Strong Margin; Finding Even More Cost Takeout Opportunity**

#### **THE COWEN INSIGHT**

Strong cost management reflected in F1Q results with adjusted EBIT +120 bps above Street. While bookings and revenue came in light, management conveyed that it's finding even more cost reduction potential across the entity and this pace likely buoys shares as it continues to outstrip the top-line contraction (-1.8% y/y CC). ***Expect positive bias to persist into November Analyst Day.***

\* \* \*

#### **1Q/19 Results: Strong Margin Offsets Revenue Miss and Weak B2B**

- Revenue of \$5.28Bn below the \$5.31Bn consensus. Revenues grew 0.9% Y/Y on a reported basis and declined 1.8% Y/Y in CC. . . .
- Adjusted EPS at \$1.93 ahead of \$1.75 consensus, driven by better margin.

\* \* \*

- ***Digital revenue performed well for the second straight quarter***, growing 21% . . . .
- Adjusted FCF was \$321MM, 58% of adjusted net income, but it affirmed its 90%+ target.

\* \* \*

***FY19 Guidance Reiterated: More Of Same Cost Takeout & Flattish Revenue; EPS Towards The Higher End Of The Range***

- ***DXC reiterated revenue of \$21.5 - \$22.0Bn, flattish y/y compared to the \$21.7Bn commercial revenues in FY18 . . . .***
- DXC reiterated the adjusted EPS range at \$7.75 - \$8.15, up 16%-22% Y/Y, and now expects FY19 to ***be at the high end of the range . . . .***
- Adj FCF remains at 90%+ Adjusted Net Income . . . .

38. Following the Company's first quarter FY19 financial reporting, the price of DXC stock increased from a close of \$86.90 per share on August 6, 2018 to a close of \$88.99 per share on August 8, 2018, and reached a Class Period high of \$96.38 per share on September 21, 2018.

39. Each of defendants' representations above was materially false and misleading when made because defendants knew or recklessly disregarded and failed to disclose the following facts:

(a) the Company had already changed the operations of its sales staff, deploying generalized sales teams as opposed to the specialized teams that were better capable of delivering specialized services to its clients;

(b) the Company's workforce optimization strategy of sharply reducing staff while reducing costs was resulting in a shortage of sales personnel who could execute on demand for services, thereby risking and ultimately losing sales and revenue opportunities; and

(c) in light of the above, the Company's revenue and financial performance guidance for FY19 and reaffirmation of the guidance during the Class Period was without a reasonable basis.

**THE TRUTH BEGINS TO BE DISCLOSED**

40. On October 24, 2018, *The Register* published an "exclusive" article titled "DXC axes Americas boss amid latest deck chair musical." The article discussed the early October 2018 surprise firing of Karan Puri, who headed the Company Americas sales force, due to a sharp decline in the region's revenue and, specifically, a reported 10%-15% revenue shortfall. The article also

suggested that an internal Company source had indicated that DXC had been struggling to efficiently serve its customers, a fact later confirmed by defendant Lawrie. The article stated, in part:

**DXC axes Americas boss amid latest deck chair musical**

Karan Puri just one of 36,000 staff to leave broken outsourcing biz in 18 months

... The boss of DXC Americas has been elbowed out of the door, an internal memo seen by The Register can confirm. *The reason for his exit is believed to be a double-digit drop in the region's sales.*

*A 9 October* memo sent to some staff from the Franken firm's CEO Mike Lawrie dedicated only the first short paragraph to the departure of Karan Puri.

"Today I am announcing that Karan Puri will be leaving DXC Technology at the end of this week. I know you will join me in wishing Karan well in his future endeavours," the memo stated. That's it.

\* \* \*

*Lawrie's memo pointed to four areas of "collective focus" for the region's top brass: "making our revenue and profitability targets for the year"; "installing a disciplined, accountable and results-oriented management systems for the region"; "realizing the significant potential of the region's industry focused go-to-market strategy"; and becoming the, er, "digital transformation partner of choice."*

\* \* \*

In addition to the usual quarterly redundancies across the wider workforce, DXC has laid off numerous senior managers ... in calendar 2018. These include Mike Klaus, senior veep of Application Services, Steve Hilton, head of Global Delivery, Martin Risau, head of analytics, Steve Trinkle, veep of airline delivery, and Sue Arthur, veep and GM of Healthcare and Life Sciences.

*One insider told us "DXC is descending into turmoil," and that earlier this month Lawrie called a "town hall" meeting to confirm more redundancies on the shop floor and "blamed Puri for a 10 to 15 per cent shortfall in [forecast] revenues".*

\* \* \*

*The Register* has often spoken to company sources that were concerned about the impact on serving customers.

*One of our sources on this occasion told us "the company is in chaos as all the cuts are leading to mounting customer complaints."*

*DXC has lost numerous customer contracts in the past year including with the Department for Work and Pensions, Aviva and Centrica.*

41. On this disclosure that the Company had weeks earlier recognized a 10%-15% revenue shortfall, fired Karan Puri, lost customers, and was experiencing overall chaos, the Company's stock price plummeted 16%, from a close of \$87.56 per share on October 23, 2018 to as low as \$69.51 per share on October 24, 2018, on high trading volume.

42. On the same day, October 24, 2018, the Company filed a Form 8-K with the SEC in response to the stock price movement and news of Puri's firing. The Company's Form 8-K also reiterated its annual EPS guidance:

In response to today's movement in the stock of DXC Technology Company ("DXC" or the "Company"), DXC issued the following statement:

DXC does not comment on rumor or speculation, nor can the Company comment during a blackout period. The Company will be reporting second quarter results on November 6th, and will hold an Investor Day on November 8th.

At that time, the Company looks forward to talking further with its shareholders about prospects for the industry, the opportunities ahead, and DXC's breadth and scale to capitalize on those opportunities.

***The Company reiterated guidance stated previously of earnings per share of \$7.75 to \$8.15 for Fiscal 2019, and that it is trending toward the higher end of that range.***

43. Later on the same day, the Company filed ***another*** Form 8-K with the SEC, again reaffirming its financial guidance:

DXC Technology Company ("DXC" or the "Company") is clarifying the statement issued earlier today in its Form 8-K.

***Today, the Company is reaffirming guidance for earnings per share of \$7.75 to \$8.15 for Fiscal 2019, and that it is trending toward the higher end of that range.***

44. On October 24, 2018, JP Morgan issued a report discussing the article in *The Register* regarding the firing of Puri and suggesting that the article was referring to weak bookings as opposed to revenue:

## Article on Americas Exec Departure Strikes A Raw Nerve – ALERT

***DXC stock is down 16% (vs. flat S&P 500) in response to an article from The Register highlighting the departure of DXC’s Americas executive Karan Puri amid sales weakness.*** . . . We have not yet spoken to DXC, but our sense is that the article is referring to weak bookings (not revenue), which have been weak in recent reports. Our positive thesis hinges more on margins and capital returns, but we acknowledge that (1) weaker bookings, if they continue, do reduce the margin of error for the stock and (2) Puri was a piece of the margin expansion story in our minds given background from HCL. That said, the stock decline does seem overdone (8x CY19E EPS), and we expect to get more clarity when DXC reports earnings on Nov 6, and hosts its analyst day on Nov 8th if not sooner.

- **News.** The register UK published an article ([https://www.theregister.co.uk/2018/10/24/dxc\\_axes\\_americas\\_boss\\_am\\_id\\_latest\\_deck\\_chair\\_musical/](https://www.theregister.co.uk/2018/10/24/dxc_axes_americas_boss_am_id_latest_deck_chair_musical/)) this morning stating DXC lost its Head of Americas business, Mr. Karan Puri, on “double digit” decline in region’s sales.
- **Quick thoughts on declining sales.** We speculate lower “sales” (relative to forecast) in the article likely refers to bookings, not revenues, given DXC’s high mix of recurring contracted business. Bookings have been weak recently, and were down 25% globally in the last reported quarter. By comparison, the company’s F1Q revenue was down 2% in CC organic basis (JPMe), including 5% decline in US revenue. The U.S. represents about 37% of DXC sales (while Americas could be close to 50%).
- **However, exec departure could be incremental negative.** We believe exec’s departure could still be incrementally negative given his background as an HCL exec, which could be critical as DXC is aiming to ramp-up its offshore mix. That said, we recognize that DXC will continue to cut costs as it transforms the company.
- **Stock reaction is telling.** Stock decline is a harsh reminder that value tech names remain out of favor, recognizing harsh negative reactions from IBM earnings and more recently Atos stock down 20%+ yesterday on a revenue miss.

45. On October 25, 2018, Morgan Stanley issued a report on DXC urging investors not to overreact. The article, titled “Keep Calm and Carry On,” noted that the Company’s stock price had fallen more than 16% in light of the news of Puri’s firing. The report also noted that the Company had quickly reaffirmed its earnings guidance and concluded that a double-digit revenue decline would be unlikely and that the sell-off was overblown:

### **Keep Calm and Carry On**

DXC closed today down 16% over an unconfirmed report from *The Register* that Karan Puri, EVP & General Manager of the Americas at DXC, was let go due to a “double-digit drop in the region’s sales.” While the company has not commented on the validity of the claim, ***management reaffirmed FY19 EPS guidance of \$7.75 - \$8.15***, stating that it is “trending toward the higher end of that range,” in-line with commentary from the company’s last earnings call. Revenue guidance was not addressed.

***We view the sell-off as overblown, and an opportunity to enter the stock at a reasonable price. . . . With regard to revenue, in our view, a double-digit decline at a large IT Services firm with diversified revenue streams is unlikely.***

46. Between October 24, 2018 and November 6, 2018, the Company’s stock maintained artificially inflated price levels of as high as \$75.94 per share.

47. Then on November 6, 2018, the Company reported its second quarter FY19 financial results in a press release. The Company missed its expected revenue results, but increased its FY19 EPS outlook. The release provided specific revenue, pre-tax earnings and gross margin results for the quarter. On the same day, the Company also disclosed that it had indeed lost big sales to significant customers, that revenues would fall short by hundreds of millions of dollars, and that the Company would reduce its FY19 revenue outlook by ***\$800 million***. The press release stated as follows:

#### **DXC Technology Delivers Second Quarter Growth in Earnings per Share and EBIT Margins**

- Q2 earnings per share from continuing operations was \$0.92, including the cumulative impact of certain items of \$(1.10) per share . . .
- Q2 non-GAAP earnings per share was \$2.02
- Q2 income from continuing operations was \$259 million . . .
- Q2 non-GAAP income from continuing operations was \$573 million
- Q2 EBIT of \$382 million, adjusted for certain items is \$799 million and adjusted EBIT margin was 15.9%, compared with 13.6% in the prior year
- Q2 net cash from operating activities was \$412 million



- Q2 adjusted free cash flow was \$604 million

. . . DXC Technology (NYSE: DXC) today reported results for the second quarter of fiscal year 2019, representing the period from July 1 through September 30, 2018.

“In the second quarter, DXC Technology delivered year-over-year and sequential growth in earnings per share and margins,” said Mike Lawrie, chairman, president and CEO. “We continue to see strong demand for our digital solutions, and we are helping clients leverage efficiency gains in their existing IT environment to reinvest in digital transformations. . . .

### **Financial Highlights - Second Quarter Fiscal 2019**

\* \* \*

Revenue in the second quarter was \$5,013 million. *Revenue decreased 8.1% compared with \$5,453 million in the prior year, reflecting a stronger dollar, completion of several large transformation projects, and slower ramp-up on a few large Digital contracts.*

\* \* \*

Non-GAAP income from continuing operations before income taxes was \$749 million compared with \$683 million in the year ago period.

\* \* \*

Non-GAAP income from continuing operations was \$573 million compared with \$492 million in the year ago period.

\* \* \*

Net cash provided by operating activities was \$412 million in the second quarter, compared with \$991 million in the year ago period.

Adjusted free cash flow was \$604 million in the second quarter.

### **Global Business Services (GBS)**

GBS revenue was \$2,111 million in the quarter compared to \$2,311 million for the prior year. *GBS revenue decreased 8.7% year-over-year, primarily driven by a decline in the traditional application maintenance and management business. . . .*

### **Global Infrastructure Services (GIS)**

GIS revenue was \$2,902 million in the quarter compared to \$3,142 million for the prior year. *GIS revenues decreased 7.6% year-over-year, reflecting the timing of client migrations from traditional to cloud environments.* GIS profit

margin in the quarter was 16.3%, up from 14.3% in the prior year, reflecting the impact of actions taken to drive greater operating efficiencies.

48. Also on November 6, 2018, following the announcement of the Company's second quarter FY19 financial results, the Company held a conference call to discuss the results and confirmed that the revenue targets for FY19 would be reduced by \$800 million, that customers were scaling back upgrades in some instances, that the digital space was not growing at the previously reported rates, that staff reductions and cost-cutting measures had resulted in the sales force being short staffed, and that the Company had changed its sales approach for two quarters and that the approach had been reversed because it was not working:

[Saleh:] *[W]e've revised our revenue target for the year to \$20.7 billion to \$21.2 billion, reflecting \$300 million of currency headwinds, the \$200 million revenue shortfall in the quarter Mike just discussed and an additional \$300 million from revised phasing of contracts in our digital and applications business.* At the same time, we are raising our targeted EPS range to \$7.95 to \$8.20, reflecting the progress we're making on our cost takeout programs.

\* \* \*

[Lawrie:] First, *we saw delays in the ramp-up of a few large digital contracts.* And while we continue to see strong market demand for our digital solutions, it is taking us longer than expected to bring on resources to support the digital growth. *Several clients were also behind in scaling their digital transformations. Together, these delays impacted revenue in the quarter by roughly \$100 million.*

Now to accelerate our hiring, we're creating a dedicated digital hiring engine. *Since DXC's launch, we've had a significant focus on synergy realization and cost takeout. And as a result, we had very limited bench.*

\* \* \*

*Well what we are seeing is in some instances, as clients begin to contemplate upgrades to some of their systems, they are scaling back on the maintenance of those existing systems. And that did cause some of the shortfall, I think it was about \$80 million, particularly in the U.S.* where we're seeing some substantial plans to upgrade some of the big application platforms that our large clients have. And I cited HPE as an example of that. So that was, to be honest, a little unplanned on our part. We didn't see that as clearly as we exited the first quarter, as we saw throughout this quarter. So I don't see that as widespread. I don't see that as continuing in the future. But it did impact this quarter, particularly in the United States.

\* \* \*

Yes, we're going to talk in much greater detail about that on Thursday at the investor conference. I don't want to get into a lot of detail here. But I think there's a couple of things going on. ***One, the, what I'll call, the mainstream business is basically declining at about the rate that we had projected.*** Some quarters, it's a little less, some quarters, it's a little more. But basically, that's absolutely in line. ***What we are seeing is a slower ramp on our digital. We're seeing very strong demand in bookings and the numbers here support that. But we're also seeing an elongation of – from when contracts are signed to when we are recognizing the revenue.*** And that can be as long as 3 or 4 months. Some of that is client-initiated and some of it is us, as a result of not being able to staff as quickly. Now as we, and as I mention, we're putting a lot of focus on the hiring. So we can staff some of these contracts more quickly. But in general, in general, ***I would say the revenue from our digital bookings is coming in a little slower than what we had expected when we started this fiscal year out. And that's what showed up in the revenue performance this quarter.***

\* \* \*

I think it's always a combination. ***I think there's some execution issues on our part, particularly in our application maintenance and management business.*** For example, ***the Americas moved to a little bit more of a general sales model. I concluded that, that wasn't working and made some changes. So we've gone back to a more specialist orientation to sales in our applications business.*** That is really an execution issue.

\* \* \*

I think we'll see some sequential growth as we go through the second half of this year. ***But in this business, when you miss by \$80 million in our application maintenance business in the second quarter, you don't make that up. You don't make that up.***

\* \* \*

[Analyst:] And so it sounds like in terms of the root issues that you need to address in the revenue side, in digital, it's staffing so you just clarified that. In application maintenance, it sounds like it's sales, it's the sales approach and it's these software upgrades have recently caused some disruption and clients spending on maintenance work. Are those the 2 issues in the apps business?

[Lawrie:] Yes, I think that's well said. We – and let me be very clear. We did not see the fall-off in this maintenance business. I didn't see it. Maybe Paul did, I didn't, okay. So that took us by surprise because – and that's an individual, client by client, what they chose to do as they begin to remix some of their IT investments in preparation for some of these digital projects that they're undertaking, in some cases, upgrades to some of their major application. That we did not see, let me be perfectly candid about that. ***The second thing was we went to a generalist sales***

*model in the United States. And after watching that for 2 quarters, I concluded that wasn't the right approach. And the reason for that is we were missing some of the add-on work that we would get by having deployed a more specialized application sales force. So we have corrected that. And we've gone back, and we've put that dedicated application sales force in place,* which will allow us to pick up on some of those incremental add-on projects that we didn't get, particularly in the second quarter. So those are the 2 things.

49. On November 7, 2018, JP Morgan issued a report, titled "F2Q Recap - Headline Revenue Miss to Overshadow Margin Progress, Remain OW," discussing the revenue miss and its magnitude:

DXC's F2Q results included revenue disappointment consistent with what many investors had feared going into the results (DXC was down 18% in the last two weeks vs. flat S&P 500). While weak revenue is not new at DXC, *high magnitude of miss could further pressure the stock today*. The company acknowledged execution challenges (in Digital and app maintenance businesses) and expects its revenue trends to stabilize next year (specifically in F2H; bookings were fine), but investors' expectations of organic revenue growth turning around could get pushed out a bit with the latest report.

\* \* \*

- **Drivers of F2Q revenue weakness.** DXC attributed the high magnitude of revenue miss to: 1) \$100M impact from slower ramp in Digital projects won as the company could not hire/deploy staff fast enough to meet strong demand, and 2) \$80M impact from lower application maintenance revenue due to key clients opting for new applications instead of maintaining existing. DXC also experienced headwinds in applications from recent switch to deploying generalist salesforce which limited its cross/up-selling opportunities, and will revert and replace w/ specialized sales personnel. We believe IT services demand environment remains healthy, and DXC's weakness stemmed from company specific execution challenges (IBM Services revenue had improved in C3Q).
- **Continued revenue headwinds over the near term.** DXC also lowered its FY19 revenue guidance from \$21.5-22.0B to 20.7-21.2B, stemming from: 1) \$300M in incremental FX headwinds relative to the company's initial guidance, 2) \$200M in F2Q revenue miss, and 3) \$300M in weak Digital, and to a lower extent, applications revenue rest of the year.

\* \* \*

- **Revising estimates.** We reduce our FY19 revenue estimates, and go to the low end of the new guidance, but higher margins and repurchase push our EPS estimate higher. Our FY19 revenue estimate of \$20.7B/\$8.23 (vs. \$21.5B/\$8.18 prior) implies 4% in CC organic revenue decline (inline with

FY18's) and 15.9% margins. We also update our FY20 revenue/adj. earnings estimates, going from \$21.4B/9.26 to \$20.2B/\$8.80. Our lower earnings estimate assumes 2% revenue decline (flattish before) and a solid 110bps in y/y margin expansion (essentially unchanged).

50. On these disclosures, the price of DXC stock declined 13%, from a close of \$72.21 per share on November 6, 2018 to a close of \$63.21 per share on November 6, 2018, on high trading volume.

### **SCIENTER ALLEGATIONS**

51. DXC and the Individual Defendants acted with scienter in that they knew that the public documents and statements issued or disseminated in the name of the Company were materially false and misleading; knew that such statements or documents would be issued or disseminated to the investing public; and knowingly and substantially participated or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the federal securities laws. As set forth elsewhere herein in detail, defendants, by virtue of their receipt of information reflecting the true facts regarding DXC, their control over, and/or receipt and/or modification of DXC's allegedly materially misleading statements and/or their associations with the Company that made them privy to confidential proprietary information concerning DXC, participated in the fraudulent scheme alleged herein.

### **LOSS CAUSATION/ECONOMIC LOSS**

52. During the Class Period, as detailed herein, defendants made false and misleading statements about DXC's business and prospects and engaged in a scheme to deceive the market. This artificially inflated DXC's stock price and operated as a fraud or deceit on Class Period purchasers. Later, when defendants' prior misrepresentations and fraudulent conduct became apparent to the market, the price of DXC stock fell precipitously as the prior artificial inflation came out of the stock's price over time. As a result of their purchases of DXC common stock during the

Class Period, plaintiff and other members of the Class (as defined below) suffered economic loss, *i.e.*, damages, under the federal securities laws.

**APPLICABILITY OF PRESUMPTION OF  
RELIANCE: FRAUD ON THE MARKET**

53. Plaintiff will rely upon the presumption of reliance established by the fraud-on-the-market doctrine in that, among other things:

- (a) Defendants made public misrepresentations or failed to disclose material facts during the Class Period;
- (b) The omissions and misrepresentations were material;
- (c) The Company's stock traded in an efficient market;
- (d) The misrepresentations alleged would tend to induce a reasonable investor to misjudge the value of the Company's stock; and
- (e) Plaintiff and other members of the Class purchased DXC common stock between the time defendants misrepresented or failed to disclose material facts and the time the true facts were disclosed, without knowledge of the misrepresented or omitted facts.

54. At all relevant times, the market for DXC common stock was efficient for the following reasons, among others:

- (a) As a regulated issuer, DXC filed periodic public reports with the SEC; and
- (b) DXC regularly communicated with public investors via established market communication mechanisms, including through the regular dissemination of press releases on major news wire services and through other wide-ranging public disclosures, such as communications with the financial press, securities analysts and other similar reporting services.

**CLASS ACTION ALLEGATIONS**

55. Plaintiff brings this action as a class action pursuant to Rule 23 of the Federal Rules of Civil Procedure on behalf of all persons who purchased DXC common stock during the Class

Period (the “Class”). Excluded from the Class are defendants and their immediate families, the officers and directors of the Company, at all relevant times, members of their immediate families, and their legal representatives, heirs, successors or assigns and any entity in which defendants have or had a controlling interest.

56. The members of the Class are so numerous that joinder of all members is impracticable. The disposition of their claims in a class action will provide substantial benefits to the parties and the Court. As of October 31, 2018, DXC had more than 280 million shares of stock outstanding, owned by hundreds or thousands of persons.

57. There is a well-defined community of interest in the questions of law and fact involved in this case. Questions of law and fact common to the members of the Class that predominate over questions that may affect individual Class members include:

- (a) Whether the 1934 Act was violated by defendants;
- (b) Whether defendants omitted and/or misrepresented material facts;
- (c) Whether defendants’ statements omitted material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading;
- (d) Whether defendants knew or recklessly disregarded that their statements were false and misleading;
- (e) Whether the price of DXC common stock was artificially inflated; and
- (f) The extent of damage sustained by Class members and the appropriate measure of damages.

58. Plaintiff’s claims are typical of those of the Class because plaintiff and the Class sustained damages from defendants’ wrongful conduct.

59. Plaintiff will adequately protect the interests of the Class and has retained counsel who are experienced in class action securities litigation. Plaintiff has no interests which conflict with those of the Class.

60. A class action is superior to other available methods for the fair and efficient adjudication of this controversy.

## **COUNT I**

### **For Violation of §10(b) of the 1934 Act and Rule 10b-5 Against All Defendants**

61. Plaintiff incorporates ¶¶1-60 by reference.

62. During the Class Period, defendants disseminated or approved the false statements specified above, which they knew or recklessly disregarded were misleading in that they contained misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

63. Defendants violated §10(b) of the 1934 Act and Rule 10b-5 in that they:

- (a) Employed devices, schemes and artifices to defraud;
- (b) Made untrue statements of material fact or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or
- (c) Engaged in acts, practices and a course of business that operated as a fraud or deceit upon plaintiff and others similarly situated in connection with their purchases of DXC common stock during the Class Period.

64. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for DXC common stock. Plaintiff and the Class would not have purchased DXC common stock at the prices they paid, or at all, if they had been



aware that the market prices had been artificially and falsely inflated by defendants' misleading statements.

65. As a direct and proximate result of defendants' wrongful conduct, plaintiff and the other members of the Class suffered damages in connection with their purchases of DXC common stock during the Class Period.

## **COUNT II**

### **For Violation of §20(a) of the 1934 Act Against All Defendants**

66. Plaintiff incorporates ¶¶1-65 by reference.

67. The Individual Defendants acted as controlling persons of DXC within the meaning of §20 of the 1934 Act. By virtue of their positions and their power to control public statements about DXC, the Individual Defendants had the power and ability to control the actions of DXC and its employees. DXC controlled the Individual Defendants and its other officers and employees. By reason of such conduct, defendants are liable pursuant to §20(a) of the 1934 Act.

## **PRAYER FOR RELIEF**

WHEREFORE, plaintiff prays for judgment as follows:

- A. Determining that this action is a proper class action, designating plaintiff as Lead Plaintiff and certifying plaintiff as a class representative under Rule 23 of the Federal Rules of Civil Procedure and plaintiff's counsel as Lead Counsel;
- B. Awarding plaintiff and the members of the Class damages and interest;
- C. Awarding plaintiff's reasonable costs, including attorneys' fees; and
- D. Awarding such equitable/injunctive or other relief as the Court may deem just and proper.

**JURY DEMAND**

Plaintiff demands a trial by jury.

DATED: December 27, 2018

THE OFFICE OF CRAIG C. REILLY  
CRAIG C. REILLY, VSB #20942

/s/ Craig C. Reilly

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